

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

WRITTEN RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TOLLEY TO ORAL QUESTION POSED AT HEARINGS

The United States Postal Service hereby provides a written response of witness Tolley to the oral question posed by the Presiding Officer at hearings on October 22, 1997.

The question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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October 29, 1997

WRITTEN RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO
QUESTION POSED BY THE PRESIDING OFFICER AT TR. 13/6939

QUESTION: Your revised volume forecast that we were discussing a moment ago that you submitted on October 9th did not, to the best of my understanding, account for Witness Mayes' revised revenue adjustment factors. And my question is, do you plan to revise your volume forecast for bound printed matter and parcel posts to account for Ms. Mayes' revised revenue adjustment factors?

RESPONSE:

Although the before- and after-rates values of the fixed weight indices do respond to changes in the revenue adjustment factors, the volume forecasts for all mail categories are independent of these revenue adjustment factors. Therefore, no revisions to the volume forecasts are necessary to account for Witness Mayes' revised revenue adjustment factors.

The rate effect multiplier is the component of the volume forecasting equation which contains the fixed weight indices. For each price included in the rate multiplier, there is a price ratio having the following form:

$$\text{Price Ratio} = \left(\frac{P_t}{P_0} \right)^e \quad (1)$$

where:

P_t is the deflated price in the projection quarter t
 P_0 is the deflated price in the base year, and
 e is the price elasticity.

The deflated price can be represented as follows:

$$P_t = \frac{ARP_t \cdot RAF}{PC_t} \quad (2)$$

where:

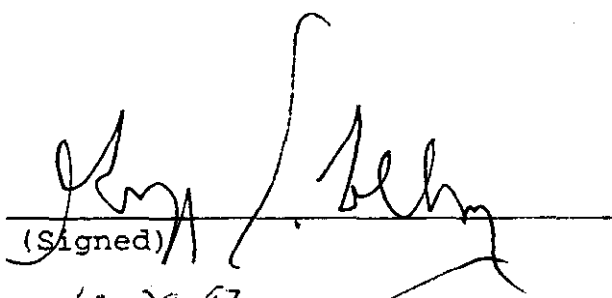
ARP_t is the calculated average revenue per piece in quarter t
 RAF is the revenue adjustment factor, and
 PC_t is the price deflator in quarter t .

The numerator of the deflated price term in equation 2 is simply the fixed weight index, which is obtained by taking the calculated average revenue per piece for each rate category and multiplying by the revenue adjustment factor.

If one were to change the revenue adjustment factor used in calculating the fixed weight index, it would change both the numerator and denominator of the price ratio shown in equation 1 by the same proportion. This implies that the price ratio, and as a consequence the rate multiplier and the volume forecast itself, remains unaffected by changes in the revenue adjustment factor.

DECLARATION

I, George Tolley, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information and belief.

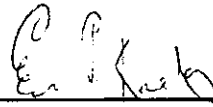

(Signed)

10-28-97

(Date)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



Eric P. Koetting

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